

MEDIUM TERM REVENUE & EXPENDITURE FRAME-WORK 2013/2014

FINAL BUDGET DOCUMENT



LEKWA LOCAL MUNICIPALITY

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Part 1 – Annual Budget

1.1 Mayor's Report

The budget speech will be available in May 2013 when the Executive table the final budget for approval.

1.2 Council Resolutions (ITEM /A13 25 March 2013)

- 1) The cognizance BE TAKEN of the following in respect of the 2013/2014 Draft MTREF:
 - a) The principle upon which both the Operating Budget and Capital Budget have been based;
 - b) Pending approval by NERSA of the application made by Lekwa Local Municipality on the proposed 7.03% increase on electricity tariffs;
 - c) The proposed 5% increase on property rates tariffs and service charges of water, refuse, sanitation and other services;
- 2) That the Draft 2013/2014 budget together with the related policies as tabled, BE SUBJECTED to community participation through public meetings to be held in all wards;
- 3) That the proposed tariffs increase as indicated in “**Annexure 2C**” BE CONSULTED WITH THE COMMUNITY;
- 4) That the annual salary increase of 6.85% BE APPROVED, as per the multi years collective salary agreement between SALGA and labour unions;
- 5) That provision BE MADE for a 8.5% estimate increase in the salaries of councillors, of which final approval is still to be announced in terms of Public Office Bearers Act;
- 6) That Heads of Department Ensure that the revenue and expenditure of their relevant department/section is monitored regularly, and, should it be found that the estimate revenue would not be realised, the Budget and Treasury Office BE ADVISED accordingly in order for the revenue budget to be adjusted during the budget adjustment process;
- 7) That Capital expenditure to be financed from grants and other external mechanisms takes place after the funds secured have been confirmed in writing and/ or received;
- 8) That the proposed capital budget BE ENTIRELY BASED on the IDP priorities in order to achieve National targets on service provision;
- 9) That a budget allocation BE MADE in respect of the amount owed to the Department of Water Affairs, and such allocation BE MADE once management has intervened regarding the dispute payable to DWA;
- 10) That the Budget related policies as amended after public consultation, BE APPROVED AND IMPLEMENTED with effect from 01 July 2013;

1.3 Legislative Requirements

The Municipal Finance Management Act (MFMA) No 56 of 2003 stipulates that an annual budget must be compiled and tabled in Council by or not later than 31 March (three months before the start of the new financial year). Following the budget being tabled, it is to be made available for public consultation, and at the end of that process Council must consider the budget a month before the start of the new financial year (31st May each year) at the latest for approval.

Section 21 of the MFMA requires the following:

- (1) The mayor of a municipality must—
 - (a) co-ordinate the processes for preparing the annual budget and for reviewing the municipality's integrated development plan and budget-related policies to ensure that the tabled budget and any revisions of the integrated development plan and budget-related policies are mutually consistent and credible;

(2) When preparing the annual budget, the mayor of a municipality must—

- (a) take into account the municipality’s integrated development plan;
- (b) take all reasonable steps to ensure that the municipality revises the integrated development plan in terms of section 34 of the Municipal Systems Act, taking into account realistic revenue and expenditure projections for future years;
- (c) take into account the national budget, the relevant provincial budget, the national government’s fiscal and macro-economic policy, the annual Division of Revenue Act and any agreements reached in the Budget Forum;
- (d) consult—
 - (i) the relevant district municipality and all other local municipalities within the area of the district municipality; the relevant provincial treasury, and when requested, the National Treasury; and any national or provincial organs of state, as may be prescribed; and
- (e) provide, on request, any information relating to the budget—
 - (i) to the National Treasury; and the national departments responsible for water, sanitation, electricity and any other service as may be prescribed;

1.4 Executive Summary

The proposed budget of Lekwa Local municipality totals R716, 013, 000 comprising of R644, 205, 000 for Operating expenditure and R71,808, 000 for Capital expenditure (see table 1 below). Both operating budget and capital budget will be funded from own operating revenue to the tune of R344, 530, 528 and grants and subsidy to the tune of R128, 443, 000, which totals to R472, 973, 528.

In view of the aforementioned, the following table is a consolidated overview of the proposed 2013/14 Medium-term Revenue and Expenditure Framework:

1.4.1 Table 1.Consolidated Overview of the 2013/2014 MTREF

MP305 Lekwa - Table A1 Budget Summary			Current Year 2012/13				2013/14 Medium Term Revenue & Expenditure Framework		
Description	2009/10	2010/11	2011/12	Original Budget	Adjusted Budget	Full Year Forecast	Budget Year	Budget Year +1	Budget Year +2
R thousands	Audited Outcome	Audited Outcome	Audited Outcome						
Financial Performance									
Property rates	33 284	33 260	33 815	36 885	20 261	20 261	41 766	43 854	46 047
Service charges	147 146	165 219	191 623	267 438	259 968	259 968	272 968	286 618	300 952
Investment revenue	450	767	729	818	577	577	606	637	669
Transfers recognised - operational	49 641	64 309	73 178	84 124	83 559	83 559	86 431	90 262	93 681
Other own revenue	24 493	21 565	34 383	28 421	25 332	25 332	26 627	27 992	29 420
Total Revenue (excluding capital transfers and contributions)	255 015	285 120	333 727	417 685	389 697	389 697	428 398	449 363	470 769
Employee costs	77 704	104 695	99 341	122 800	111 679	111 679	140 217	149 574	159 397
Remuneration of councillors	10 827	17 452	15 739	14 585	11 748	11 748	16 156	13 236	13 945
Depreciation & asset impairment	–	–	81 921	12 000	12 000	12 000	134 096	134 225	134 225
Finance charges	–	–	202	2 900	1 354	1 354	–	–	–
Materials and bulk purchases	94 804	129 092	169 270	170 772	170 216	170 216	224 131	241 736	260 891
Transfers and grants	1 535	6 798	8 466	7 558	17 863	17 863	18 757	19 697	20 683
Other expenditure	27 200	31 406	81 468	87 287	109 472	109 472	110 847	105 648	111 730
Total Expenditure	212 070	289 444	456 408	417 902	434 332	434 332	644 205	664 116	700 871
Surplus/(Deficit)	42 945	(4 324)	(122 680)	(217)	(44 635)	(44 635)	(215 807)	(214 753)	(230 102)
Transfers recognised - capital	–	–	–	–	–	–	–	–	–
Contributions recognised - capital &	–	–	–	–	–	–	–	–	–
Surplus/(Deficit) after capital transfers & contributions	42 945	(4 324)	(122 680)	(217)	(44 635)	(44 635)	(215 807)	(214 753)	(230 102)
Share of surplus/ (deficit) of	–	–	–	–	–	–	–	–	–
Surplus/(Deficit) for the year	42 945	(4 324)	(122 680)	(217)	(44 635)	(44 635)	(215 807)	(214 753)	(230 102)
Capital expenditure & funds sources									
Capital expenditure	14 778	19 724	44 115	56 847	62 087	62 087	71 808	64 350	50 363
Transfers recognised - capital	14 545	16 829	40 950	45 347	56 843	56 843	64 475	61 050	44 803
Public contributions & donations	–	–	–	–	–	–	–	–	–
Borrowing	–	–	–	–	–	–	–	–	–
Internally generated funds	233	2 895	3 165	11 500	11 744	11 744	7 333	3 300	5 560
Total sources of capital funds	14 778	19 724	44 115	56 847	68 587	68 587	71 808	64 350	50 363

The estimated Operating revenue for 2013/14 financial year has grown by 9.9% or R38,7m when compared to the 2012/13 Adjustments Budget.

The estimated Operating expenditure for the 2013/14 financial year has grown by 48.32 % or R209m When compared to the 2012/13 Adjustments Budget.

The Capital budget of R75,7 m for 2013/14 is 5 percent less when compared to the 2012/13 Adjustment Budget. The decrease is due to the fact that various projects will be finalised in the current financial and the municipality does not have sufficient reserves to do internally funded.

1.5 Operating Revenue Framework

Lekwa Local Municipality continues improving the quality of services provided to its residents it needs to generate the required revenue. In these tough economic times strong revenue management is fundamental to the financial sustainability of every municipality. The reality is that we are faced with development backlogs and poverty. The expenditure required to address these challenges will inevitably always exceed available funding; hence difficult choices have to be made in relation to tariff increases and balancing expenditures against realistically anticipated revenues.

MP305 Lekwa - Table A2 Budgeted Financial Performance (revenue and expenditure by standard classification)							
Standard Classification Description	2009/10	2010/11	2011/12	Current Year 2012/13			2013/14 M Expe
R thousand	Audited Outcome	Audited Outcome	Audited Outcome	Original Budget	Adjusted Budget	Full Year Forecast	Budget Year 2013/14
Revenue - Standard							
<i>Governance and administration</i>	101 585	115 385	127 535	141 261	116 934	116 934	141 973
Executive and council	49 437	62 888	69 971	79 087	79 091	79 091	81 454
Budget and treasury office	17 752	18 556	22 999	23 406	16 375	16 375	17 483
Corporate services	34 396	33 942	34 565	38 768	21 469	21 469	43 036
<i>Community and public safety</i>	979	714	1 590	1 962	1 893	1 893	1 997
Community and social services	303	371	(783)	378	338	338	361
Sport and recreation	16	26	54	75	50	50	53
Public safety	660	318	2 320	1 510	1 506	1 506	1 583
Housing	–	–	–	–	–	–	–
Health	–	–	–	–	–	–	–
<i>Economic and environmental services</i>	4 669	3 394	12 444	6 309	10 450	10 450	10 982
Planning and development	7	12	10	1 758	1 785	1 785	1 877
Road transport	4 661	3 382	12 434	4 552	8 665	8 665	9 105
Environmental protection	–	–	–	–	–	–	–
<i>Trading services</i>	147 782	165 627	192 158	268 152	260 419	260 419	273 446
Electricity	99 974	121 647	134 881	205 771	195 412	195 412	205 185
Water	21 117	16 848	26 231	28 340	31 109	31 109	32 665
Waste water management	16 971	18 042	21 248	22 473	21 695	21 695	22 781
Waste management	9 720	9 089	9 798	11 568	12 203	12 203	12 815
<i>Other</i>	–	–	–	–	–	–	–
Total Revenue - Standard	255 015	285 120	333 727	417 685	389 697	389 697	428 398
Expenditure - Standard							
<i>Governance and administration</i>	39 070	58 649	178 593	139 878	155 134	155 134	297 677
Executive and council	14 721	27 502	111 242	50 393	54 253	54 253	191 035
Budget and treasury office	13 960	16 875	56 439	73 475	85 812	85 812	89 360
Corporate services	10 388	14 272	10 911	16 010	15 069	15 069	17 282
<i>Community and public safety</i>	24 341	31 419	38 005	36 249	37 433	37 433	40 969
Community and social services	2 823	3 838	3 668	4 619	3 490	3 490	3 002
Sport and recreation	4 960	6 641	6 982	5 765	7 304	7 304	6 229
Public safety	16 435	20 750	26 556	23 537	26 098	26 098	28 973
Housing	2	10	6	2 327	9	9	2 764
Health	121	179	792	–	532	532	–
<i>Economic and environmental services</i>	17 660	22 623	21 316	25 743	21 318	21 318	27 243
Planning and development	260	342	615	5 451	235	235	3 031
Road transport	17 400	22 281	20 701	20 293	21 083	21 083	24 211
Environmental protection	–	–	–	–	–	–	–
<i>Trading services</i>	131 000	176 753	218 493	216 032	220 447	220 447	278 317
Electricity	105 572	140 953	178 675	180 259	180 584	180 584	234 174
Water	9 353	14 895	17 116	17 118	17 227	17 227	19 118
Waste water management	6 575	8 879	9 651	5 502	9 237	9 237	10 330
Waste management	9 500	12 025	13 051	13 153	13 400	13 400	14 695
<i>Other</i>	–	–	–	–	–	–	–
Total Expenditure - Standard	212 070	289 444	456 408	417 902	434 332	434 332	644 205
Surplus/(Deficit) for the year	42 945	(4 324)	(122 680)	(217)	(44 635)	(44 635)	(215 807)

The table indicate that the municipality is unable to generate sufficient revenue from trading services in order for it to operate the service while subsidising other service that are not cash generating. Its evident that electricity contributes a huge amount to the municipal revenue but due to illegal connection of electricity by the consumers the municipality is as result indirectly subsidising those households that have connected electricity illegally whilst the municipality must still service the Eskom account.

Before the implementation of GRAP Standards no provisions were made for the depreciation of assets as well as capital replacements as a result this has placed an enormous strains on the municipality's operating budget. Refer to Table A34d

MP305 Lekwa - Table A4 Budgeted Financial Performance (revenue and expenditure)

Description	2009/10	2010/11	2011/12	Current Year 2012/13			2013/14 M Expe
	R thousand	Audited Outcome	Audited Outcome	Audited Outcome	Original Budget	Adjusted Budget	Full Year Forecast
Revenue By Source							
Property rates	33 284	33 260	33 815	36 885	20 261	20 261	41 766
Service charges - electricity revenue	99 573	121 250	134 367	205 070	194 982	194 982	204 731
Service charges - water revenue	21 101	16 845	26 218	28 335	31 103	31 103	32 658
Service charges - sanitation revenue	16 756	18 041	21 248	22 473	21 692	21 692	22 777
Service charges - refuse revenue	9 716	9 083	9 790	11 561	12 192	12 192	12 802
Rental of facilities and equipment	1 216	791	(345)	862	749	749	793
Interest earned - external investments	450	767	729	818	577	577	606
Interest earned - outstanding debtors	16 897	16 048	18 450	20 269	13 487	13 487	14 161
Fines	646	361	2 352	1 567	1 622	1 622	1 704
Licences and permits	4 597	3 288	12 396	4 494	8 649	8 649	9 084
Transfers recognised - operational	49 641	64 309	73 178	84 124	83 559	83 559	86 431
Other revenue	1 137	1 077	1 530	1 229	826	826	885
Total Revenue (excluding capital transfers and contributions)	255 015	285 120	333 727	417 685	389 697	389 697	428 398
Expenditure By Type							
Employee related costs	77 704	104 695	99 341	122 800	111 679	111 679	140 217
Remuneration of councillors	10 827	17 452	15 739	14 585	11 748	11 748	16 156
Debt impairment	–	–	29 911	40 081	55 469	55 469	58 243
Depreciation & asset impairment	–	–	81 921	12 000	12 000	12 000	134 096
Finance charges	–	–	202	2 900	1 354	1 354	–
Bulk purchases	92 272	125 663	165 129	167 828	166 784	166 784	220 052
Other materials	2 532	3 429	4 141	2 945	3 431	3 431	4 079
Contracted services	11 080	11 217	21 846	21 818	24 761	24 761	25 876
Transfers and grants	1 535	6 798	8 466	7 558	17 863	17 863	18 757
Other expenditure	16 120	20 189	29 712	25 387	29 243	29 243	26 728
Loss on disposal of PPE							
Total Expenditure	212 070	289 444	456 408	417 902	434 332	434 332	644 205
Surplus/(Deficit)	42 945	(4 324)	(122 680)	(217)	(44 635)	(44 635)	(215 807)

The table indicated that revenue from sale of electricity is R 204 731 47.78% followed by grants & subsidies of R 86 431 20% while property rates contribute R 41 766 9.7% to total revenue. The revenue generated from revenue water & sewerage could increase drastically as it was discovered that business are charged at the same tariff as domestic users as a result there is a significant revenue loss on the provision of this services. The revenue from rental of facilities will also increase as the agreements for rental will be put in place. A service provider will be appointed as well as designated technician to deal specifically with electricity tempering, illegal connection of electricity. This will yield a significant increase in electricity revenue. Between January & March close to 600 households illegally connected to electricity have been disconnected by the municipality and were penalised for the illegal connection.

In an effort to implement credit control and generate sufficient revenue the municipality has commenced issuing defaulters with notices for intention to terminate electricity and soft block other households and failure by the consumers to pay their accounts or make payment arrangements results in the electricity been disconnected or soft blocked till such time the consumers come to pay their arrears accounts or make payments arrangements. The municipality is striving to collect at least up to 90 days of arrears amounts on all consumers that are in arrears and this equate to at least R51 mil and this will improve when consumer gets used to the culture of paying for their services. During the public participation the municipality will also be embarking on campaigns that will be seeking to raise awareness on the importance of consumers paying for their services as well as regaining public confidence.

The employee related cost will increase as a result of vacant positions especially of Heads of Departments been filled. The municipality will also fill other critical positions that will reduce overtime while ensuring optimal productivity by employees. The reality is that most consumers are unable to pay for their services as they are unemployed (indigent) while other consumers may no longer be located therefore the municipality should provide for their bad debt and currently the municipality can collect up to 86% of its debt therefore provision should also be made for those debt that it is unable to collect. In the previous financial years these provisions were not made but the municipality will phase it in over a number of years. Prior to the implementation of GRAP/GAMAP/GRAAP the municipality did not make provision for depreciation or capital replacement as a result the municipality are still using old infrastructure and is unable to replace or repair them optimally, as a result the assets are not performing optimally and the municipality having major service infrastructure backlogs. The municipality has commenced providing for depreciation and is investigating innovating ways to have sufficient funds in reserves to either replace, acquire additional assets or repair the assets when required and this will be phased in over the 2013/14MTREF.

The municipality has commenced with strategies to ensure that the bulk electricity account is settled and this will includes the municipality collecting all revenue from electricity sales. The municipality is investigating if whether if the electricity tariffs are in line with the cost of providing such services.

The municipality's budget implementation strategy is built around the following key components:

Policy Review

Ensure that all relevant policies are reviewed which includes tariffs, credit & debt collection, indigent etc.

Data purification

Purify the debtor's data to ensure data integrity, accuracy and completeness of debtor's information. This will also ensure that correct tariffs are levied on all debtors. Classify debtors according to their various categories.

Valuation

Complete the import of the supplementary valuation roll on to the municipal system. Implement the requirements of MPRA

Meter reading

Ensure that all meters are read accurately on a monthly basis whilst ensuring that all queries are attended promptly, preferably resolved within 2 working days.

Tariffs

Benchmark the municipal tariffs with other local municipality's tariffs. Ensure that tariffs are cost reflective while ensuring that they remain affordable. Ensure that all properties are levied at the correct tariffs for all various services

Illegal Electricity Connection

All tempered or illegally connected meter will be disconnected and the offender will be liable to a fine of R 5000 if they are first time offenders and this will increase to R 10 000 if the commit the act again (second time) and ultimately all connections will be disconnected with no possibilities of reconnection if the commit the act for the third time.

Credit Control & Debt Collections

All customers that are in arrears for more than 90 days will have their electricity disconnected unless they come forward and have a payment arrangement that they honor the terms on a monthly basis

Salary Bill

Restructure the personnel and encourage other employees to take early retirement. Check if there are no repeating duties (similar functions but performed by more than one individual). Fill only critical and strategic position. Reduce and monitor vigorously overtime. Audit the municipal payroll for accuracy and completeness.

Bulk Purchases

Install bulk meters to measure the accuracy and completeness of the bulk purchase accounts. Pay a minimum of at least the current account plus arrears in order to reduce the account over time.

Contracted Services

All expenditures on contracted services must be halted until a clear contract management is in place which will indicate clearly the service rendered the cost of the service, measurable deliverables, and the duration of the contract.

Other Operating Expenditure

All other expenditures must be linked to the availability of funds as well as the source of funding before they are incurred.

Investment in Infrastructure

All managers & hod's must prepare business plans that indicate their infrastructure needs as well as funding to eradicate service backlogs from other sector departments

MP305 Lekwa - Table A5 Budgeted Capital Expenditure by vote, standard classification and funding							2013/14 M Expe
Vote Description	2009/10	2010/11	2011/12	Current Year 2012/13			2013/14
R thousand	Audited Outcome	Audited Outcome	Audited Outcome	Original Budget	Adjusted Budget	Full Year Forecast	Budget Year 2013/14
Capital Expenditure - Standard							
<i>Governance and administration</i>	233	23	2 632	6 500	-	-	-
Executive and council			13	6 500			
Budget and treasury office	233	23	74				
Corporate services			2 544				
<i>Community and public safety</i>	-	724	6 587	13 045	18 208	18 208	14 056
Community and social services			6 565	5 000	8 796	8 796	7 000
Sport and recreation		364		8 045	9 412	9 412	7 056
Public safety	360		22	-	-	-	-
Housing							
Health							
<i>Economic and environmental services</i>	13 587	14 848	29 896	8 757	13 794	13 794	3 500
Planning and development							
Road transport	13 587	14 848	29 896	8 757	13 794	13 794	3 500
Environmental protection							
<i>Trading services</i>	957	4 128	5 000	28 545	30 084	30 084	54 252
Electricity	453	1 236	2 102	3 900	2 913	2 913	4 200
Water		2 646	832	10 000	6 500	6 500	23 452
Waste water management			1 973	7 701	10 201	10 201	22 600
Waste management	504		245	93	6 944	10 470	4 000
<i>Other</i>							
Total Capital Expenditure - Standard	14 778	19 724	44 115	56 847	62 087	62 087	71 808
Funded by:							
National Government	14 545	16 829	40 950	45 347	56 843	56 843	44 575
Provincial Government							
District Municipality							19 900
Other transfers and grants							
Transfers recognised - capital	14 545	16 829	40 950	45 347	56 843	56 843	64 475
Public contributions & donations							
Borrowing							
Internally generated funds	233	2 895	3 165	11 500	11 744	11 744	7 333
Total Capital Funding	14 778	19 724	44 115	56 847	68 587	68 587	71 808

It is evident that most of the municipal infrastructure assets are funded by grants from National Government and the municipality will implement a strategy over the MTREF which will enable to utilise other means of funding to fund its infrastructure assets.

MP305 Lekwa - Table A6 Budgeted Financial Position							
Description	2009/10	2010/11	2011/12	Current Year 2012/13			2013/14 M Expe
R thousand	Audited Outcome	Audited Outcome	Audited Outcome	Original Budget	Adjusted Budget	Full Year Forecast	Budget Year 2013/14
ASSETS							
Current assets							
Cash	3 571	1 427	15 605	18 069	18 069	18 069	52 409
Call investment deposits	12 111	7 534	–	–	–	–	–
Consumer debtors	32 907	44 760	39 449	53 941	53 941	53 941	31 563
Other debtors	7 480	399	10 980	500	500	500	10 378
Current portion of long-term receivables				6 107	6 107	6 107	
Inventory	2 025	1 540	2 322	2 975	2 975	2 975	2 843
Total current assets	58 093	55 660	68 357	81 592	81 592	81 592	97 193
Non current assets							
Long-term receivables							
Investments							
Investment property							
Investment in Associate							
Property, plant and equipment	38 374	46 220	1 937 690	73 836	73 836	73 836	1 885 866
Agricultural							
Biological							
Intangible				361	361	361	
Other non-current assets							
Total non current assets	38 374	46 220	1 937 690	74 197	74 197	74 197	1 885 866
TOTAL ASSETS	96 468	101 880	2 006 047	155 789	155 789	155 789	1 983 059
LIABILITIES							
Current liabilities							
Bank overdraft	–						
Borrowing	421	1 716	36 641	655	655	655	1 699
Consumer deposits	3 272	2 542	2 592	2 500	2 500	2 500	2 609
Trade and other payables	58 934	90 997	121 269	78 007	78 007	78 007	188 066
Provisions	8 036	11 551	348	14 250	14 250	14 250	348
Total current liabilities	70 663	106 806	160 850	95 412	95 412	95 412	192 722
Non current liabilities							
Borrowing	4 037	2 276	33 346	2 595	2 595	2 595	–
Provisions	–	–	–	–	–	–	32 309
Total non current liabilities	4 037	2 276	33 346	2 595	2 595	2 595	32 309
TOTAL LIABILITIES	74 700	109 082	194 197	98 007	98 007	98 007	225 031
NET ASSETS	21 768	(7 202)	1 811 850	57 782	57 782	57 782	1 758 029
COMMUNITY WEALTH/EQUITY							
Accumulated Surplus/(Deficit)	21 768	(7 202)	1 811 850	57 782	57 782	57 782	1 758 029
Reserves	–	–	–	–	–	–	–
Minorities' interests							
TOTAL COMMUNITY WEALTH/EQUITY	21 768	(7 202)	1 811 850	57 782	57 782	57 782	1 758 029

It is evident from the table that during the previous financial years the municipality's current liabilities exceeded the current assets of the municipality and no provisions were made for working capital. Because no provisions were made for working capital this place strains on the municipality's ability to implement its budget, service its debt and provisions for services. Outstanding creditors contributed highly to the high current liabilities. The municipality will phase in the provision for working capital over the MTREF and this will be done realistically while ensuring that it's funded.

MP305 Lekwa - Table A7 Budgeted Cash Flows

Description	2009/10	2010/11	2011/12	Current Year 2012/13			2013/14 M Expe
	Audited Outcome	Audited Outcome	Audited Outcome	Original Budget	Adjusted Budget	Full Year Forecast	Budget Year 2013/14
R thousand							
CASH FLOW FROM OPERATING ACTIVITIES							
Receipts							
Ratepayers and other	230 986	221 789	321 649	280 586	280 586	280 586	330 892
Government - operating	100 718	64 760	68 402	84 124	84 124	84 124	86 431
Government - capital		28 508	35 877	45 347	45 347	45 347	64 475
Interest		466	14 410	11 966	11 966	11 966	14 767
Dividends							
Payments							
Suppliers and employees	(278 577)	(305 566)	(376 468)	(354 850)	(354 850)	(354 850)	(436 330)
Finance charges		(937)	(233)	(400)	(400)	(400)	
Transfers and Grants				(2 504)	(2 504)	(2 504)	(3 216)
NET CASH FROM/(USED) OPERATING ACTIVITIES	52 656	23 668	49 460	64 268	64 268	64 268	57 018
CASH FLOWS FROM INVESTING ACTIVITIES							
Receipts							
Proceeds on disposal of PPE							
Decrease (Increase) in non-current debtors							
Decrease (increase) other non-current receivables							
Decrease (increase) in non-current investments							
Payments							
Capital assets	(35 185)	(25 812)	(45 193)	56 847	56 847	56 847	(71 808)
NET CASH FROM/(USED) INVESTING ACTIVITIES	(35 185)	(25 812)	(45 193)	56 847	56 847	56 847	(71 808)
CASH FLOWS FROM FINANCING ACTIVITIES							
Receipts							
Short term loans							
Borrowing long term/refinancing							
Increase (decrease) in consumer deposits							
Payments							
Repayment of borrowing	(2 623)		(2 334)	(2 900)	(2 900)	(2 900)	
NET CASH FROM/(USED) FINANCING ACTIVITIES	(2 623)	-	(2 334)	(2 900)	(2 900)	(2 900)	-
NET INCREASE/ (DECREASE) IN CASH HELD	14 848	(2 144)	1 933	118 215	118 215	118 215	(14 790)
Cash/cash equivalents at the year begin:	(11 277)	3 571	1 427	15 605	15 605	15 605	52 409
Cash/cash equivalents at the year end:	3 571	1 427	3 360	133 820	133 820	133 820	37 620

The municipal cash inflow from ratepayers and other for 2013-14MTREF is based on a collection rate of 75%.

MP305 Lekwa Supporting Table SA10 Funding measurement

Description	2009/10	2010/11	2011/12	Current Year 2012/13		2013/14 M ¹ Exper
	Audited Outcome	Audited Outcome	Audited Outcome	Original Budget	Adjusted Budget	Budget Year 2013/14
Total billable revenue	181 646	199 270	225 093	305 185	280 978	315 527
Service charges	180 430	198 479	225 438	304 323	280 229	314 734
Property rates	33 284	33 260	33 815	36 885	20 261	41 766
Service charges - electricity revenue	99 573	121 250	134 367	205 070	194 982	204 731
Service charges - water revenue	21 101	16 845	26 218	28 335	31 103	32 658
Service charges - sanitation revenue	16 756	18 041	21 248	22 473	21 692	22 777
Service charges - refuse removal	9 716	9 083	9 790	11 561	12 192	12 802
Rental of facilities and equipment	1 216	791	(345)	862	749	793
Capital expenditure excluding capital grant funding	233	2 895	3 165	11 500	11 744	7 333
Cash receipts from ratepayers	230 986	221 789	321 649	280 586	280 586	330 892
Ratepayer & Other revenue	204 923	220 045	259 821	332 743	305 561	341 361
Change in consumer debtors (current and non-current)	14 138	4 772	5 271	10 119	10 119	(18 607)
Operating and Capital Grant Revenue	49 641	64 309	73 178	84 124	83 559	86 431
Capital expenditure - total	14 778	19 724	44 115	56 847	68 587	71 808
Change in consumer debtors (current and non-current)	14 138	4 772	5 271	(50 429)	(18 607)	–
Total Operating Revenue	255 015	285 120	333 727	417 685	389 697	428 398
Total Operating Expenditure	212 070	289 444	456 408	417 902	434 332	644 205
Operating Performance Surplus/(Deficit)	42 945	(4 324)	(122 680)	(217)	(44 635)	(215 807)
High Level Outcome of Funding Compliance						
Total Operating Revenue	255 015	285 120	333 727	417 685	389 697	428 398
Total Operating Expenditure	212 070	289 444	456 408	417 902	434 332	644 205
Surplus/(Deficit) Budgeted Operating Statement	42 945	(4 324)	(122 680)	(217)	(44 635)	(215 807)
Surplus/(Deficit) Considering Reserves and Cash Backing	45 215	(40 842)	(165 914)	3 759	(36 575)	(258 896)
MTREF Funded (1) / Unfunded (0)	1	0	0	1	0	0
MTREF Funded ✓ / Unfunded ✗	✓	✗	✗	✓	✗	✗

This table indicate that the municipality has been operating with a deficit during the previous financial period as a result this has been affecting the municipality to implement its budget adequately. The municipality has to implement a strategy in order to reduce the deficit over the MTREF and ultimately have operations that are funded & realistic.

The following table gives a breakdown of the various operating grants and subsidies allocated to the municipality over the medium term:

Table 1 Operating Transfers and Grant Receipts

	2013/14 Medium Term Revenue & Expenditure Framework		
	Proposed Budget Year	Proposed Budget Year	Proposed Budget Year
	2013-14	1+ Year 2014-15	2+ Year 2015-16
EQUITABLE SHARE	R 81 428 000.00	R 85 036 000.00	R 88 237 000.00
MSIG	R 890 000.00	R 934 000.00	R 967 000.00
FINANCIAL MUNICIPAL GRANT	R 1 550 000.00	R 1 600 000.00	R 1 650 000.00
EPWP	R 1 056 000.00		
MIG	R 41 318 000.00	R 33 994 000.00	R 28 803 000.00
INEP	R 2 201 000.00	R 1 000 000.00	R 3 000 000.00
	R 128 443 000.00	R 122 564 000.00	R 122 657 000.00

1.2. Tariff-Setting

Tariff-setting is a pivotal and strategic part of the compilation of any budget. When rates, tariffs and other charges were revised, local economic conditions, input costs and the affordability of services were taken into account to ensure the financial sustainability of the Lekwa Local Municipality.

National Treasury continues to encourage municipalities to keep increases in rates, tariffs and other charges as low as possible. Municipalities must justify in their budget documentation all increases in excess of the 6percent upper boundary of the South African Reserve Bank's inflation target. Excessive increases are likely to be counterproductive, resulting in higher levels of non-payment.

The percentage increase of Eskom bulk tariffs are far beyond the mentioned inflation target. Given that these tariff increases are determined by external agencies, the impact they have on the municipality's electricity tariffs are largely outside the control of the Lekwa Local Municipality. Discounting the impact of these price increases in lower consumer tariffs will erode the Lekwa Local Municipality's future financial position and viability.

It must also be appreciated that the consumer price index, as measured by CPI, is not a good measure of the cost increases of goods and services relevant to municipalities. The basket of goods and services utilised for the calculation of the CPI consist of items such as food, petrol and medical services, whereas the cost drivers of a municipality are informed by items such as the cost of remuneration, bulk purchases of electricity, petrol, diesel, chemicals, cement etc. The current challenge facing the Lekwa Local Municipality is managing the gap between these cost drivers and tariffs levied, as any shortfall must be made up by either operational efficiency gains or service level reductions. Within this framework the Lekwa Local Municipality has undertaken the tariff setting process relating to service charges as follows.

1.5.1 Property Rates

Property rates cover the cost of the provision of general services. Determining the effective property rate tariff is therefore an integral part of the municipality's budgeting process. The tariffs for property rates will be increased with 5%.

National Treasury's MFMA Circular No. 58 & 59 deals, inter alia with the implementation of the Municipal Property Rates Act, with the regulations issued by the Department of Co-operative

Governance. These regulations came into effect on 1 July 2009 and prescribe the rate ratio for the non-residential categories, public service infrastructure and agricultural properties relative to residential properties to be 0, 25:1. The implementation of these regulations was done in the previous budget process and the Property Rates Policy of the Municipality has been amended accordingly.

1.5.2 Sale of Water and Impact of Tariff Increases

South Africa faces similar challenges with regard to water supply as it did with electricity, since demand growth outstrips supply. Consequently, National Treasury is encouraging all municipalities to carefully review the level and structure of their water tariffs to ensure:

- Water tariffs are fully cost-reflective – including the cost of maintenance and renewal of purification plants, water networks and the cost associated with reticulation expansion;
- Water tariffs are structured to protect basic levels of service and ensure the provision of free water to the poorest of the poor (indigent); and
- Water tariffs are designed to encourage efficient and sustainable consumption.

In addition National Treasury has urged all municipalities to ensure that water tariff structures are cost reflective by 2014.

Better maintenance of infrastructure, new dam construction and cost-reflective tariffs will ensure that the supply challenges are managed in future to ensure sustainability.

A tariff increase of 5% from 1 July 2013 for water is proposed. This is based on the CPI assumption of 6percent increase in costs and another 2.05 percent increase to gradually move towards the target of cost reflective tariffs in 2014.In addition 6 kℓ water per month will again be granted free of charge to all households.

1.5.3 Sale of Electricity and Impact of Tariff Increases

NERSA has announced the revised bulk electricity pricing structure. An 8%increase in the Eskom bulk electricity tariff to municipalities will be effective from 1 July 2013.

The consumer tariffs had to be increased by 7.3% to offset the additional bulk purchase cost from 1 July 2013.Indigent households will again be granted 50 kWh per month free of charge.

The inadequate electricity bulk capacity and the impact on service delivery and development remains a challenge for Lekwa Local Municipality. The upgrading of Lekwa Local Municipality's electricity network has become a strategic priority, especially the substations and transmission lines.

The repairs and maintenance budget for 2013/14 for the Electricity Division can only be utilised for certain committed maintenance projects.

Owing to the high increase in electricity tariffs, it is clearly not possible to fund these necessary upgrades through more increases in the municipal electricity tariffs.

1.5.4 Sanitation and Impact of Tariff Increases

A tariff increase of 5%for sanitation from 1 July 2013 is proposed. This is based on the input cost assumptions related to water. The following factors also contributed to the proposed tariff increase:

- Registered indigent households will enjoy the benefit of free sanitation on basic charges
- The proposed move to cost reflective tariffs by 2014.

1.5.5 Waste Removal and Impact of Tariff Increases

Currently solid waste removal as the other services is operating at a deficit of R2.3 mil. It is widely accepted that the rendering of this service should at least break even, which is currently not the case. Lekwa Local Municipality will have to implement a solid waste strategy to ensure that this service can be rendered in a sustainable manner over the medium to long-term. The main contributors to this deficit are repairs and maintenance on vehicles, increases in general expenditure such as petrol and diesel and the cost of remuneration. Considering the deficit, it is recommended that a comprehensive investigation into the cost structure of this service, as well as the other services be undertaken, and that this include investigating alternative service delivery models. The outcomes of this investigation will be incorporated into the next planning cycle. The tariff increase of 5% for waste removal is proposed.

1.6 Operating Expenditure Framework

Lekwa Local Municipality's expenditure framework for the 2013/14 budget and MTREF is informed by the following:

- Repairs and maintenance backlogs;
- Balancing the budget (operating expenditure should not exceed operating revenue unless there are existing uncommitted cash-backed reserves to fund any deficit);
- Funding of the budget over the medium-term as informed by Section 18 and 19 of the MFMA;
- The capital programme and backlog eradication; and
- Funding the capital budget and other core services by operational gains and efficiencies.

The increase in employee related costs for the 2013/14 financial year have been budgeted at a rate of 6.85% for the 2013/14 financial year.

The cost associated with the remuneration of councillors is determined by the Minister of Co-operative Governance and Traditional Affairs in accordance with the Remuneration of Public Office Bearers Act, 1998 (Act 20 of 1998). In compiling the salary budget for Councillors, a 10 percent increase was provided based on the most recent proclamation which came into effect in July 2011.

Note that the application of Directive 4 with regard to the phasing in of depreciation (GRAP 17) has resulted in a significant decrease in depreciation this charge will however increases significantly in the ensuing years, but it will not have an effect on tariffs as this charge is excluded when determining tariffs. The budgeted amount for depreciation amount to R134m

Bulk purchases are directly informed by the purchase of electricity from Eskom. The annual price increases have been accounted for in the budget appropriations and directly inform the revenue provisions. The expenditures include distribution losses.

Other expenditure comprises of various line items relating to the daily operations of the municipality. This group of expenditure has also been identified as an area in which cost savings and efficiencies can be achieved. Growth has been limited to 5 for 2013/14.

Included in this cost component is the purchase of fuel, diesel, materials for maintenance, cleaning materials and chemicals. In line with the Lekwa Local Municipality's intentions to increase repairs and maintenance of its assets, this group of expenditure has been prioritised to ensure sustainability of the Lekwa Local Municipality's infrastructure.

1.6.1 Priority given to repairs and maintenance

In terms of the Municipal Budget and Reporting Regulations, operational repairs and maintenance is not considered a direct expenditure driver but an outcome of certain other expenditures, such as remuneration, purchases of materials and contracted services.

Under spending on repairs and maintenance – Often seen as a way to reduce spending in the short term, under spending on maintenance can shorten the life of assets, increase long-term maintenance and refurbishment costs, and cause a deterioration in the reliability of services

MP305 Lekwa - Supporting Table SA34c Repairs and maintenance expenditure by asset class									
Description	2009/10	2010/11	2011/12	Current Year 2012/13			2013/14 Medium Term Revenue & Expenditure Framework		
	R thousand	Audited Outcome	Audited Outcome	Audited Outcome	Original Budget	Adjusted Budget	Full Year Forecast	Budget Year	Budget Year +1
Repairs and maintenance expenditure by Asset Class/Sub-class									
Infrastructure	5 158	8 823	8 852	8 709	7 217	7 217	10 422	7 258	7 612
Infrastructure - Road transport	108	1 882	1 448	1 334	710	710	3 585	76	67
Roads, Pavements & Bridges	108	1 882	1 448	1 334	710	710	3 585	76	67
Storm water									
Infrastructure - Electricity	3 754	4 001	4 205	4 910	3 442	3 442	3 617	3 800	3 992
Generation									
Transmission & Reticulation	3 563	3 552	3 880	4 210	3 030	3 030	3 184	3 345	3 514
Street Lighting	192	449	324	700	412	412	433	455	478
Infrastructure - Water	811	2 277	2 067	1 935	2 235	2 235	2 348	2 466	2 591
Dams & Reservoirs									
Water purification	811	2 277	2 067	1 935	2 235	2 235	2 348	2 466	2 591
Reticulation									
Infrastructure - Sanitation	485	662	1 132	530	830	830	872	916	962
Reticulation	485	662	1 132	530	830	830	872	916	962
Other assets	4 935	7 882	6 439	5 570	4 230	4 230	5 384	5 643	5 977
General vehicles	1 908	3 349	3 585	2 395	2 357	2 357	2 415	2 514	2 678
Specialised vehicles	–	–	–	–	–	–	–	–	–
Plant & equipment	1 131	2 696	1 640	1 384	1 330	1 330	1 415	1 488	1 572
Computers - hardware/equipment	108	104	253	200	50	50	53	56	59
Furniture and other office equipment	112	135	7	14	6	6	14	15	16
Civic Land and Buildings									
Other Buildings	350	1 191	437	913	357	357	1 240	1 306	1 375
Other Land	1 253	299	356	526	22	22	150	162	170
Surplus Assets - (Investment or Inventory)									
Other	73	108	162	139	107	107	97	102	107
Intangibles	734	747	449	291	301	301	350	335	356
Computers - software & programs	734	747	449	291	301	301	350	335	356
Other (list sub-class)									
Total Repairs and Maintenance	10 827	17 452	15 739	14 570	11 748	11 748	16 156	13 236	13 945

Part 2 – Supporting Documentation

2.1 Overview of the annual budget process

Section 53 of the MFMA requires the Mayor of the municipality to provide general political guidance in the budget process and the setting of priorities that must guide the preparation of the budget. In addition Chapter 2 of the Municipal Budget and Reporting Regulations states that the Mayor of the municipality must establish a Budget Steering Committee to provide technical assistance to the Mayor in discharging the responsibilities set out in section 53 of the Act.

The Budget Steering Committee consists of the Municipal Manager and senior officials of the municipality meeting under the chairpersonship of the Council Committee for Finance.

The primary aim of the Budget Steering Committee is to ensure:

- that the process followed to compile the budget complies with legislation and good budget practices;
- that there is proper alignment between the policy and service delivery priorities set out in Lekwa Local Municipality's IDP and the budget, taking into account the need to protect the financial sustainability of municipality;
- that the municipality's revenue and tariff setting strategies ensure that the cash resources needed to deliver services are available; and
- that the various spending priorities of the different municipal departments are properly evaluated and prioritised in the allocation of resources.

2.1.1 Budget Process Overview

In terms of section 21 of the MFMA the Mayor is required to table in Council ten months before the start of the new financial year (i.e. in August 2012) a time schedule that sets out the process to revise the IDP and prepare the budget.

The IDP and Budget schedule of key deadlines was tabled before to consider and evaluate through the budget evaluation checklist, the budget process and consider a schedule of key deadlines for the preparation of the next financial year budget. During the same month the Accounting Officer tabled in Council this schedule of key deadlines and the document was approved.

The Accounting Officer in the process of preparing the budget made sure that various issues required by the Municipal Financial Management Act are addressed:

- Review of the IDP objectives and strategies;
- Review of the 2012/13 Service Delivery and Budget Implementation Plan (SDBIP);
- Review of the existing and compiling new budget-related policies;
- Consider the Macro and Micro economic climate and budget guidelines, requirements and growth parameters;
- Planning the Implementation of GFS classifications;
- Consider proposed tariff increase;
- Prioritize community needs in the IDP when drafting Capital Budget

2.1.2 Community Consultation

The draft 2013/14 MTREF to be tabled before Council on 25 March 2013 will be taken for community consultation

2.2 Overview of alignment of annual budget with IDP

The Constitution mandates local government with the responsibility to exercise local developmental and cooperative governance. The eradication of imbalances in South African society can only be realized through a credible integrated developmental planning process.

A municipal IDP provides a five year strategic programme of action aimed at setting short, medium and long term strategic and budget priorities to create a development platform, which correlates with the term of office of the political incumbents. The plan aligns the resources and the capacity of a municipality to its overall development aims and guides the municipal budget. An IDP is therefore a key instrument which municipalities use to provide vision, leadership and direction to all those that have a role to play in the development of a municipal area.

2.2.1 Free Basic Services: basic social services package for indigent households

The basic social package confirms the Municipality commitments to push back the frontiers of poverty by providing free basic services and also assists the municipality in meeting its constitutional obligations regarding the progressive realization of the social and economic rights of its residents.

- The first 6 KL of water is free to all residents
- The first 50 kWh of electricity is free to residents who are registered as indigents.
- The municipality also allows different rebates to different areas and categories of rate payers.
- The municipality also subsidizes residents who are registered as indigents with regard to payment of other basic services and rates

2.2.2 Providing clean water and managing waste water

Lekwa Local Municipality is the Water Services Authority for the entire municipality in terms of the Water Services Act, 1997 and acts as a water services provider. Lekwa Local Municipality is providing clean water from its own water sources, such as boreholes and dams.

The Department of Water Affairs conducts an annual performance rating of water treatment works, presenting a Blue Drop or Green Drop award respectively to potable water treatment works and waste water treatment works that meet certain criteria of excellence.

Lekwa Local Municipality has not yet been awarded the Blue Drop status and the Green Drop status because of the following challenges:

- The infrastructure at the waste water treatment works is old and insufficient to treat the increased volumes of waste water to the necessary compliance standard;
- Licensing of water plants
- Shortage of skilled personnel makes proper operations and maintenance difficult;

The following are some of the steps that have been taken to address these challenges:

- Infrastructure shortcomings are being addressed through the capital budget;
- The filling of vacancies has commenced and Lekwa Local Municipality and SETA will embark on an in-house training programme, especially for operational personnel;

2.3 Overview of budget related-policies

Lekwa Local Municipality's budgeting process is guided and governed by relevant legislation, frameworks, strategies and related policies.

2.4 Legislation compliance status

Compliance with the MFMA implementation requirements have been substantially adhered to through the following activities:

MFMA Implementation and Monitoring Checklist

The municipality is generally complying for the majority of the implementation priorities as per the National Treasury implementation and monitoring checklist. This checklist is updated quarterly and submitted to National Treasury. Below in Table 11 is a summary of progress against the plan

Table 12

No.	Implementation priority as per NT template	Progress
1	Preparing an implementation plan	50%
2	Allocating appropriate responsibilities under the MFMA to Accounting Officer	70%
3	Establishing a top (senior) management team	50%
4	Implementing appropriate controls over municipal bank accounts and cash management	100%
5	Meeting of financial commitments	100%
6	Reporting revenue and expenditure	60%
7	Supply chain management	80%
8	Implementing reforms in relation to municipal entities and long-term contracts	100%
9	Completing financial statements and advising National Treasury	100%
10	Completing and tabling annual report	75%
11	Complying with provisions for tender committees, boards of municipal entities and in relation to forbidden activities	80%
12	Complying with provisions for internal audit and audit committees	100%
13	Complying with provisions for budgets	80%
14	Information to be placed on website	90%

MFMA returns

Name of return	Submitted to
MONTHLY	
Financial Management Grant	
Age Analysis Debtors (AD) and Creditors (AC), Cash Flow, Operating Statement Actual (OSB)	NT/PT
Section 71 Budget Statements	PT/NT
Supply Chain Management	NT/PT
MIG returns	NT/PT
MSIG	NT/PT
Conditional Grants returns NT/PT	
QUARTERLY	
MFMA Implementation and monitoring checklist	NT/PT
Municipal entities	NT/PT
Long-term contracts	NT/PT
Borrowing	NT/PT
ANNUALLY	
Budget tables return	NT/PT
Operating Statement Budget	NT/PT
Cashflow Budget	NT/PT
Budget Capital Acquisition	NT/PT
Budget Evaluation Check list	NT/PT

Audit units and audit committees

The internal audit function of the municipality is now functional, but vacant positions in this section still needs to be filled. The municipality has an audit committee in place comprising of independent members as required by section 166 of the MFMA. The Audit Committee meets at least quarterly.

Tabling of section 71 reports

Section 71 reports are submitted to the Executive Mayor and also forwarded to National Treasury/Provincial treasury on a monthly basis.

Delegations

All delegations are not yet in place.

Performance agreements

The performance agreements for 2012/2013 have not yet been finalized, and SDBIP has been approved. For the 2013/2014 financial year performance agreements must be signed timeously.

Risk management

The municipality has a risk management strategy and plan in place.

Implementation of SCM

The new supply chain management policy of the municipality, in line with the MFMA and national treasury prescripts, was adopted by council in October 2007. All bid committees as required by the SCM regulations are in place and the bid adjudication is chaired by the Manager Expenditure and operates within delegated powers.

Effectiveness of Budget steering committees

The budget steering committee is established and functional.